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Our depression was not brought about as a result of extravagance . . . . The difficulty is that we were not sufficiently extravagant as a nation. We did not consume what we were able to produce . . . . The theory of hard work and thrift as a means of pulling us out is unsound economically. True hard work means more production, but thrift and economy mean less consumption . . . . There is only one agency in my opinion that can turn the cycle upward and that is the Government . . . . The Government must so regulate, through its power of taxation, through its power over the control of money and credit, and hence its volume, the economic structure so as to give men who are able, and worthy and willing to work the opportunity to work and to guarantee to them sustenance for their families and protection against want and destitution.

Marriner S. Eccles, 1932

Yours was the only revolution on record that entered government by way of a central bank.

John Kenneth Galbraith to Marriner S. Eccles, 1976

I believe [Eccles] played a far greater role in the development of what came later to be called Keynesian policies than did Keynes or any of his disciples.

Milton Friedman, 1983

On July 29, 1983, the Federal Reserve Building in Washington, D.C. was formally named in honor of Marriner S. Eccles, the successful Utah banker and businessman who served as Governor of the Fed, 1934-36, as Chairman of the Board of Governors, 1936-48, and as a member of the Board, 1948-51. While Eccles was honored primarily for his struggle to maintain Federal Reserve independence to conduct monetary policy, his role in introducing "compensatory" monetary and fiscal policies--modern macroeconomic stabilization policies--was undoubtedly of equal or greater importance. In tracing the development of Eccles' macroeconomic philosophy, this study identifies him as one of the earliest American precursors to Keynes and as the most important figure in the introduction of "Keynesian" economic policies in the United States.

In February 1933, the Finance Committee of the United States heard testimony on the causes and cures of the depression. While farmers argued for remonetization of silver as a means of recovery, and labor spokesmen suggested reduced hours and work weeks, the majority of the forty-six prominent Americans who testified were of the opinion that the depression represented the workings of natural economic law, a punishment for the "extravagance" of the Twenties, and that to interfere with the cycle of boom and bust was to invite disaster. "We should make one single and invariable dictum the theme of every discourse," said Bernard Baruch, summarizing the common view, "balance budgets, stop spending money we haven't got. Sacrifice for frugality and revenue. Cut government spending--cut it as rations are cut in a siege. Tax--tax everybody for everything."[1]

In this view, Baruch was reflecting the political wisdom of the day. While Congress had approved a major tax cut shortly after the crash of late 1929, the large federal budget deficits which accompanied the disastrous decline in national income had led to a reversal of tax policy, with both political parties in the 1932 campaign advocating a balanced federal budget as the key to economic recovery. The Democratic Party platform called for "a federal budget balanced on the basis of accurate executive estimates within revenues" and included a provision for reducing the size of government by 25 percent through massive cuts in expenditure programs. In an effort to reduce the deficit, Congress had passed in 1932 what was to that point the largest tax increase in U.S. history. Toward the end of the hearings, Marriner S. Eccles [who had been invited to participate by Senator William H. King as a favor to a nephew who was a long-time friend of Eccles] was called to testify. Eccles, 43 years old, was a successful Utah banker and industrialist, a "conservative Republican" whose formal schooling had ended after three years of high school, but whose business acumen had enabled him to bring various interests through the worst years of the depression relatively unscathed.

In his testimony, Eccles identified the cause of the depression as an insufficiency of effective demand, rather than punishment for past extravagances, loss of confidence, or workings of natural law, as those before him had suggested. The cure, Eccles stated, was a restoration of sufficient spending to purchase the quantity of goods which it was possible to produce at full employment. Because the profit motive could be expected to lead individuals, business, and financial institutions to make decisions which would further reduce spending, hence, income and employment, the government, motivated not by profits, but by the welfare of the public, must compensate by spending more. "I see no way of correcting this situation except through Government action," Eccles declared.[2] He then proceeded to outline a five-point program of unemployment relief, public works, agricultural allotment, farm mortgage refinancing, and permanent settlement of interallied debts to deal with the immediate problems of the depression. He also proposed a plan for long-run economic stability that included unification of the banking system under the Federal Reserve and the creation of an agency to guarantee bank deposits; tax reform to achieve a more equitable distribution of wealth and purchasing power; passage of national child labor, minimum wage, unemployment insurance, and old age pension laws; federal agencies to approve all new capital issues offered to the public and all foreign financing, all means of transportation, and all means of communication to insure their operation in the public interest; and a national planning board to coordinate public and private economic activities.[3] Eccles' testimony was received by the Finance Committee with a mixture of interest, skepticism, disbelief, and outright hostility. Three years later, a cover story in *Time Magazine* evaluated his 1933 proposals in the following terms: "Eccles laid before a Senate committee a plan, which turned out to be nothing less than a detailed blueprint of the New Deal. Only one Eccles suggestion has not materialized--official cancellation of War Debts."[4]

The issue of primacy in intellectual or scientific discovery is often difficult or impossible to resolve. The development of "Keynesian" thought on both sides of the Atlantic is a case in point. While Keynes did not publish his *General Theory* until 1936, antecedent strands of what eventually became known as Keynesian theory can be traced back to the early 1930s and earlier. Eccles was only one of several who claimed to have developed the theory of compensatory finance independently as early as 1931. The purpose of this essay is not to answer definitively the question, "Who first had the idea?"--an impossible task, but rather to address another question, "Who, among the early proponents of compensatory economic stabilization was most responsible for the acceptance of 'Keynesian' analysis in the formulation of U.S. economic policy?" That the answer to the question is, most likely, "Marriner Eccles," is both the conclusion of the study and a testimony to the power of the ideas we now associate with Keynes. It is also testimony to the intellectual power and integrity of

Eccles, who, at the age of 41, determinedly followed his logic to unorthodox and unpopular conclusions, in spite of an upbringing, background, and profession which would seem to make him the most unlikely of revolutionaries. The discussion of Eccles' economic philosophy and his impact on U.S. economic policy which follows is based primarily on his papers, now on deposit in the Special Collections Library at the University of Utah, supplemented by published works dealing with Eccles and by correspondence and conversations with economists who associated with him during his public years and later. Information and opinions offered by Lauchlin Currie, Richard A. Musgrave, Evsey D. Domar, Charles P. Kindleberger, Herbert Stein, John Kenneth Galbraith, and Milton Friedman have been particularly valuable.

I. Changing Views

> *We must acknowledge that progress comes only through toil, economy, and thrift, and that these alone are the motive power which creates the enduring structure.*
>
> Marriner S. Eccles, 1925

> *The matter of economy is negative, the matter of spending is positive, and we have been doing the negative thing rather than the positive. We have been preaching the negative doctrine . . . . Our depression was not brought about as a result of extravagance . . . . The difficulty is that we were not sufficiently extravagant as a nation. We did not consume what we were able to produce . . . . We are trying to apply a theory of economy as obsolete as the Ark.*
>
> Marriner S. Eccles, 1932

Marriner Eccles' father, David, was Utah's first native millionaire. Born in poverty in Glasgow, Scotland, in 1849, David had emigrated from Scotland with his family--blind father, mother, and seven children--in 1863, after their conversion to

Mormonism. The move from Scotland to Utah was a move from urban poverty to frontier poverty, but through hard work and unrelenting economy, David Eccles achieved the American dream. By the time he died in 1912, Eccles, who had been illiterate when he arrived in Utah at the age of fourteen and who was barely literate as an adult, had founded fifty-four separate enterprises. He owned real property in seven states and in Canada, and was president of seven banks and sixteen industrial corporations. He was an officer of forty-seven corporate enterprises, and his companies were among the leaders in the West in mining, manufacturing, refining, construction, agriculture, and finance. His estate was appraised at more than $7 million.[5]

Marriner Stoddard Eccles was the eldest of nine children born to David Eccles' second wife. Marriner's father, a polygamist, had twelve other children by his first wife. The success Marriner experienced in consolidating and expanding the fragmented holdings his family inherited on the death of his father has been well-documented elsewhere.[6] In addition to property, Marriner Eccles inherited from his father a set of beliefs about the proper roles of individuals and government in the functioning of the economic system. The invisible hand of laissez-faire capitalism would automatically combine resources in a way which would most efficiently increase production, wealth, consumption, and provide for a continually rising standard of living for all who participated. The role of government should be limited to "maintaining confidence" through strict budget-balancing at all times, while the greatest benefit would be received by those who worked hard, practiced strict economy, and invested prudently. Confidence promoted saving, and saving financed new productive investment. If, by chance, a panic or depression disrupted the system, it was only a temporary, self-correcting adjustment which would disappear once the necessary bankruptcies and liquidations had occurred. Economic dislocations could be handled by private charity, and the West provided an ideal place for those dislocated to begin anew.[7] "We must acknowledge," Eccles told Utah bankers in 1925, "that progress comes only through toil, economy, and thrift, and that these alone are the motive power which creates the enduring structure."[8] These beliefs, accepted without question by Marriner Eccles in prosperous times, stayed with him until early in 1931 when, by his own account:

> I saw for the first time that though I'd been active in the world of finance and production for seventeen years and knew its techniques, I knew less than nothing about its economic and social effects. The discovery of my ignorance, however, did not by itself lead anywhere. Friends whose estates I managed, my family, whose interests I represented, and the community at large, in whose economic life I played a sensitive role, all expected me to find a way out of the economic trap we were all in. Yet all I could find within myself was despair. Having been reared by my father to accept the responsibilities of wealth and having been placed by circumstances at the helm of many enterprises, there were times when I felt the whole depression was a personal affront. Wherein had I been at fault? Night after night following my headsplitting awakening, I would return home exhausted by the pretensions of knowledge I was forced to wear in a daytime masquerade. I would slump forward on a table and pray that the answers I was groping for would somehow be revealed. As an individual I felt myself helpless to do anything.[9]

Marriner Eccles had run aground on the shoals of macroeconomics. His discovery of ignorance was reflected in his public addresses. In a speech entitled, "Banking as Related to Economic Conditions," delivered at a Bank Management Conference in Salt Lake City on March 26, 1931, Eccles said:

> Under conditions of prosperity little thought or attention is given to an analysis to determine factors creating prosperity or even normality . . . . The same thought and consideration should be given to an analysis of economic conditions in periods of prosperity as are given in periods of depression as it is necessary to avoid the mistakes of the former if we are going to prevent the distress of the latter.
>
> For nearly two years now the world has been going through a major economic readjustment of great intensity, creating suffering and hardship on the part of many millions of people. Everyone is interested in a solution and there has been a great deal of discussion all over the world as to the causes of the present depression and what the remedies may be. The solution assuredly is not an easy one and will not correct itself as some people like to believe . . . . The causes lie too deep and are too complex and wide-spread to be removed easily . . . . The modern system by which society supplies its wants is a complicated one. It is a wonderfully effective organization when in balance with every branch, but if anything happens to throw it out of balance it is possible to have millions of people unable to buy the products of others because they cannot sell their own. Something has happened, which has affected the buying power of millions of people, and other millions are trying to ignore it.[10]

Eccles had by this point rejected the idea of the automatic restoration of economic prosperity through the workings of the invisible hand of narrow self-interest. He had discovered the fallacy of composition and had concluded that "intelligent and courageous" open-market purchases by the Fed could have averted the drastic deflation which followed the crash. He also found in the writings of William Trufant Foster, a leading economic heretic since the 1920s, a basic explanation of and suggested cure for the depression which squared with Eccles' own principal experiences and observations. Foster argued that the widely-held view that the depression was the result of extravagant spending in the Twenties was the exact reverse of the truth. "Far from having been profligate, the nation wasted its substance in riotous saving," he argued. Underconsumption, rather than undersaving was the culprit, since industry stops making goods and hiring labor "solely because it cannot sell the goods." Foster also argued that the "lazy fairies" of private enterprise could not be expected to reverse the decline in purchasing power by producing or investing without expectation of sales or profits. Since, in Foster's view, an increase in consumer purchasing power was the only sound way to quickly end the depression, public enterprise was the only alternative. Foster concluded that the federal government should deliberately increase the national debt by spending for public works and by tax reductions in order to increase aggregate purchasing power and end the depression.[11] During the period 1931-33, Eccles developed and extended the underconsumption theory, buttressed it with an impressive array of statistics, and by 1933 had arrived at the essential framework of "Keynesian" analysis and policy. The evolution of his thinking can be identified in his public addresses of 1932 and 1933. Speaking on the subject "Depression--Its Causes, Effects, and Suggested Remedies" before the Utah State Bankers Convention on June 17, 1932, Eccles declared:

> I believe, contrary to the opinion of most people, that the depression within our own country was primarily brought about by our capital accumulation getting out of balance and relationship to our consumption ability . . . . Our depression was not brought about as a result of extravagance . . . . We did not consume as a nation more than we produced . . . . The difficulty is that we were not sufficiently extravagant as a nation. We did not consume what we were able to produce . . . . In other words, we have lost sight of the fact that the end of production is consumption and not money.

Eccles mentioned the fallacy of composition problem and the futility and perversity of federal government efforts to balance the budget as a means to recovery:

> The matter of efficiency where it means the reduction of labor and laying off of men . . . must defeat its own purpose, and we have been going on here for a period of more than three years, each attempting to solve his own problem by the process of laying people off, by the process of reduction of wages and salaries, and by the process of cutting every possible expenditure that it was possible to cut, and when we finally get through the process we find that we are just where we were when we began because everybody else is doing the same thing, without accomplishing our purpose, but merely reducing the standard of living, with a constant decrease in consumption . . . . Now, I do not say that we can do anything else because as individuals, as corporations, we are forced to balance our budget. We have no power to regulate the question of credit or money and each one must scramble to protect himself until something is done to bring about a turn, but the disappointing thing in all of this is that the Government . . . which is the one agency that has the power to regulate the value of money . . . has now adopted a policy of deflation.
>
> They are advocating economy and discharging men and reducing the purchasing power. They are only following the same trend that all individuals and corporations have been forced to follow. We hear the necessity of balancing the budget . . . . It may be well for them to consider that the production of wealth is accomplished by mental and physical effort and that when people are unemployed or employed on part time you stop the production of wealth at the very source, and just to the extent that unemployment increases, just to that extent are you going to find it more impossible to pay debts and collect taxes, and to balance any budget--Government or any other budget. It seems to me that it would be well for us to recognize the fact that our national income today is approximately thirty billion dollars less than it was in 1929, or a loss in national income of about two and one-half billion dollars a month. Due to what? Due to the loss of employment, due to the decrease in consumption, due to a lower standard of living. And yet we worry and we talk about the failure to balance the budget by a billion dollars, and at the same time we are losing through unemployment possibly two billion dollars a month.

Alternative theories of the causes of depression were discussed and dismissed:

> When you look over this country . . . and realize that possibly a third of our population do not have any of the modern facilities and

> conveniences--do not know what it is to use electricity, . . . you will realize that we do not have over-production for our needs, but merely lack of buying power because of unemployment.
>
> Now I do not say that a greater consumption and higher standard of living may make better people. If we are going to assume that we have got to have a chastisement and a punishment as a result of our extravagances, then I suppose we have got to go through these depressions, these devastations and destruction, this breaking down of morale every so often, but if we are going to be scientific and if men are going to be equal to the machine that they have created then we are going to recognize that as medical science has developed in the elimination of many virulent diseases, so can economics advance in the elimination of these disastrous, destructive, unnecessary depressions. These are not acts of God, they are mistakes of man, and I do not believe they are punishment meted out to us.

Traditional theories of economic recovery were also discarded:

> The economic conceptions that affected the conditions in this country when we were a debtor nation, when we had frontiers to develop, do not in any way affect the situation today. The theory of hard work and thrift as a means of pulling us out is unsound economically. True hard work means more production, but thrift and economy mean less consumption. Now reconcile those two forces, will you? We do not want capital accumulation in the sense that we need to add to our plant facilities. We do not want credit . . . . People who want credit want to borrow it from you to pay somebody else. That's all. People are not going to use credit to put men to work until they get a demand for the thing they produce, and they are not going to get a demand for the thing they produce until you create employment, give buying power to the consumer.

"Now for the solution of our problem," Eccles said. "How are you going to put these people back to work? There is only one agency in my opinion that can turn the cycle upward and that is the Government."

> If a man owed himself he could not be bankrupt, and neither can a nation. We have got all of the wealth and resources we ever had, and we do not have the sense, the financial and political leadership to know how to use them. We are trying to apply a theory of economy as obsolete as the Ark.
>
> . . . .

> If the Government in order to finance the war could spend billions of dollars in order to give protection to life and property, and not have one single thing to show for it when it is over but the destruction of the flower of the youth of the nation, then certainly the Government is justified in supplying sufficient credit or money to take care of the unemployed through public works, or an unemployment wage or a combination of both . . . the Government, if it is worthy of the support, the loyalty, and the patriotism of its citizens, must so regulate, through its power of taxation, through its power over the control of money and credit, and hence its volume, the economic structure so as to give men who are able, and worthy and willing to work, the opportunity to work and to guarantee to them sustenance for their families and protection against want and destitution.[12]

Eccles had further developed and refined his ideas by 1933. His address to the Utah Education Association on October 27, entitled "Reconstructing Economic Thinking," began with a statement of perspective on the development of his own thinking in the area of macroeconomics. "I do not profess to be an economist," he began. "The views which I here express are the result of personal observations and study made in the field of active business and financial life."

> I think up until the time of the depression I was fully as orthodox in my economic and financial conceptions as any of the most conservative bankers and business leaders. This for the reason that I had been so absorbed by the fascination of the financial and business game that I had not stopped to consider the fundamental and underlying purpose of it all. I had not answered for myself the question, "What is an economic system for?" With the development of the past four years I have been forced to greatly change most of my former conceptions which I had grown up with due to the numerous paradoxes which I have been confronted with on every hand.[13]

Eccles then argued that changes in the world during the preceding 150 years had reduced or eliminated many of the forces which had led to spontaneous recovery from depressions in the past, a point he had made forcefully in his Senate Finance Committee testimony earlier that year:

> Our individual evolution has made necessary a new economic philosophy, a new business point of view and fundamental changes in our social system. The nineteenth century economics will no longer serve our purpose--an economic age 150 years old has come to an end. The orthodox capitalistic system of uncontrolled individualism, with its free competition, will no longer serve our purpose. We must think in terms of the scientific, technological, interdependent machine age, which can only survive and function with a modified capitalistic system controlled and regulated from the top by government.[14]

"In the past," he told Utah educators, "the usual way out of depressions has been through a revival of new investments by the expenditure of private capital."

> . . . Our orthodox economic thinkers assume that this will repeat itself and they advocate being quiet and waiting, assuming that the financial processes will take us out of the depression, while at the same time our banks hold hundreds of millions of cash reserves sufficient to extend credit by eight to ten billion of dollars on a basis of our present gold reserve without requiring any change in the gold value of our dollar. With this capacity for almost unlimited credit expansion our financial institutions continue the contraction of credit and new investments are almost at the zero point . . . .
>
> The assumption of spontaneous revival through new investment has always rested on the fallacious belief that people and banks will not indefinitely hold money in idleness. This is a false idea, as this depression is beginning to prove. The question is not how bankers and those who have idle money and credit can bring about recovery, but why they should do so, so long as there is no incentive offered in any field for profitable investment.[15]

The breakdown of the "invisible hand" in the macroeconomy was clearly stated to the Finance Committee:

> We see now, after nearly four years of depression, that private capital will not go into public works on self-liquidating projects except through government and that if we leave our "rugged individual" to follow his own interest under these conditions he does precisely the wrong thing. Each corporation for its own protection discharges men, reduces payrolls, curtails its orders for raw materials, postpones construction of new plants and pays off bank loans, adding to the surplus of unusable funds. Every single thing it does to reduce the flow of money makes the situation worse for business as a whole.[16]

The banking system was subject to the same problem: "Our banking system as a whole is not responsible for the depression any more than any other branch of our capitalistic economy of individualism . . . In times of depression, when prices break, banks are forced to contract credit as rapidly as possible in order to protect depositors."[17]

Eccles, however, rejected the idea that a shortage of currency in circulation was responsible for the continuation of the depression. "There is no shortage of currency in circulation at the present time," he said. The problem was "due to the amount of currency which is hoarded and the lack of velocity of existing currency . . . . The need is not for more money, but for more spending."[18]

If a shortage of currency did not cause the Depression, neither did a shortage of credit. Said Eccles:

> If it is credit we need, why do not, say, 200 of our great corporations controlling 40 per cent of our industrial output that are in such shape that they do not need credit--they have great amounts of surplus funds--if it is credit that is needed why do they not put men to work? Why do not those great institutions put men to work? For the very reason that there is not a demand for goods.[19]

To the view that recovery was dependent on the establishment of "sound money," Eccles commented:

> It seems to me that sound money is merely money which maintains or increases in its purchasing power. Unsound money is money which continues to decline in its purchasing power. The goodness or the badness is the extent of the appreciation or depreciation after the money is issued . . . . The only security of any issue of money is a right course of future events measured by sufficient spending to maintain a price structure in relation to the value of money when it was created. Believers in sound money are deluded when they think they have ways of foretelling its future value. For the past two years or more

> we have had the painfully sound dollar measured by its purchasing power in terms of goods and services. The sounder it got the further prices fell and the more unemployment increased. Had the policy of economy and budget balancing on the part of the Government continued, it would have soon been so sound that all of our credit institutions would have been closed, there would have been no bank money and all of the people would have been starving to death with an abundance of everything for everybody, or at least the willingness and power to produce it . . . .
>
> Our sound money friends seem to be terrified lest the Government unbalance its budget and spend enough money to give the shivering and undernourished millions of unemployed unsound money in return for productive labor so that the great quantities of now unsaleable goods and unrentable housing might be bought and utilized. The sound money people say that the credit to build factories, which are now idle, and credit to foreign governments, which they can now only pay in goods, was sound a few years ago, but money created by Government financing and spent by it for relief, public works, housing, and slum clearance, would not now be sound because not self-liquidating and profit-yielding . . . .
>
> The great struggle in America today is between the people who believe in what they call sound money and the people who believe in the right to eat and the right to work.

"There is no security for anyone except in a steady production, a balanced distribution, and a responsible humane government. There can be no security for the thrifty or the worker [in a state which] allows production to become paralyzed and millions of men to go without work. In such a state, sound money is not only a travesty but a tragedy," Eccles concluded.[20]

By 1933, Eccles had concluded that only the government was in a position to stimulate economic recovery. "Financial fuel is piled up," he said,

> --the Government, and not the bankers, must apply the torch. Motives of public welfare must lead us out of the present depression as greed and war have led the world out of past depressions . . . . The Government, unlike the bankers, has the power of taxation and power to create money and does not have to depend on the profit motive.[21]

"If my analysis is correct," said Eccles,

> we can not expect private investors to draw their money from the banks and put it into circulation through providing capital for new investment; neither can we expect those who have credit to use that credit for a similar purpose under present conditions. We must then depend upon the Government to save what we have of a price, profit and credit system.
>
> The only escape from a depression must be by increased spending. In the absence of new fields for investment in a world already glutted with unsaleable products, the only way to increase spending is for the Government to spend it for nonprofit-yielding works for the benefit of all, for the expansion of social services of all kinds, or for war . . . . War certainly is the worst way to provide the means for more spending . . . . It is unfortunate to have to kill people in order to spend enough to consume the goods necessary to keep people employed.

"This argument is not against consumption," Eccles emphasized, "but it is against the bad type of consumption which is constituted by war."[22]

In defending government expenditures on public works before the Senate Finance Committee, Eccles also contrasted those expenditures with war expenditures in the following exchange.

Senator Walsh of Massachusetts: "We can go to extremes of waste in the matter of public works if we are not very careful."

Mr. Eccles: "Of course we are losing $2 billion per month in unemployment. I can conceive of no greater waste than the waste of reducing our national income about half of what it was. I cannot conceive of any waste as great as that."

Senator Walsh: "Your suggestion is that we meet it by borrowing large sums of money in performing works. That the people have got to pay for it in taxation, ..."

Mr. Eccles:

> No, they would not pay for it now. There are times to borrow and there are times to pay. The Government borrowed during the war $27 billion, and we got prosperity even though all they borrowed was wasted, every dollar of it. There could be no waste in post offices or in roads or in schools. You would have something to show for it. With war all you have left is the expense of taking care of maimed and crippled and sick veterans. That is what is left from war. And it is all wastage.

On balancing the government budget, Eccles had the following observations: "In the light of this record," he asked the Finance Committee,

> is it consistent for our political and financial leadership to demand at this time a balanced Budget by the inauguration of a general sales tax, further reducing the buying power of our people?
>
> Is it necessary to conserve Government credit to the point of providing a starvation existence for millions of our people in a land of superabundance? Is the universal demand for Government economy consistent at this time? Is the present lack of confidence due to an unbalanced budget?
>
> What the public and the businessmen of this country are interested in is a revival of employment and purchasing power. This would automatically restore confidence and increase profits to a point where the Budget would automatically be balanced in just the same manner as the individual corporation, State, and city budget would be balanced.
>
> Today we are losing close to two billions per month of national income due to unemployment, resulting in the inability of our people to purchase the goods necessary to sustain our production. Is there any program of economy and Budget balancing on the part of our Government as important as to stop this great loss and all the attendant human suffering, devastation, and destruction?

With circumstances so serious, the failure of political and financial leaders to take corrective action was, in Eccles' mind, inexcusable. "The breakdown of our present economic system," he asserted, "is due to the failure of our political and financial leadership to intelligently deal with the money problem." Unless corrective measures were taken, Eccles predicted, "we can only expect to sink deeper in our dilemma and distress, with possible revolution, with social disintegration, with the world in ruins, the network of its financial obligations in shreds, with the very basis of law and order shattered . . . ." "Why risk such a catastrophe," he asked, "when it can be averted by aggressive measures in the right direction on the part of the Government."[23]

"It is a national disgrace," he told the Finance Committee, "that such suffering should be permitted in this, the wealthiest country in the world."

> The present condition is not the fault of the unemployed, but that of our business, financial, and political leadership. It is incomprehensible that the people of this country should very much longer stupidly continue to suffer the wastes, the bread lines, the suicides, and the despair, and be forced to die, steal, or accept a miserable pittance in the form of charity which they resent, and properly resent. We shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism . . . . You have got to take care of the unemployed or you are going to have a revolution in this country.[24]

II. Compensatory Economics

> *Financial fuel is piled up--the Government, and not the bankers, must apply the torch. Motives of public welfare must lead us out of the present depression as greed and war have led the world out of past depressions.*
>
> Marriner S. Eccles, 1933

> *I see nothing in our economic organization to lead me to believe that business stability will ever come about by itself. I think that without a fair measure of stability the system will not survive. I hope and I believe that the inherent instability of capitalism may be corrected by conscious and deliberate use of three compensatory instruments, taxation, varying governmental expenditures, and monetary control . . . . It should be evident by now that simple maxims and rules of thumb are not sufficient.*
>
> Marriner S. Eccles, 1935

> *The Government must be looked upon as a compensatory agency in this economy to do just the opposite of what private business and individuals do. The latter are necessarily motivated by the desire for profit. The former must be motivated by social obligation.*
>
> Marriner S. Eccles, 1936

By the mid-1930s, Eccles' compensatory policy recommendations were based on a sophisticated macroeconomic analysis which covered the consumption function; the multiplier; a distinction between the relative sizes of the government expenditure and transfer-tax multipliers; leakages and injections; causes of inflation; liquidity trap; velocity; the transmission mechanism of monetary influences; the Phillips curve; the relationships among increases in the money supply, productivity increases, and inflation; the role of inflationary and deflationary expectations; income and wealth distribution; the coordination of monetary, fiscal, and incomes policies; and the interrelationships between domestic stabilization policies and international movements of goods and capital. While he never attempted the construction of a formal model, all of the elements of "Keynesian" analysis, with the possible exception of the accelerator, may be found in his speeches, letters, and memos.

All policies which came under Eccles' scrutiny were examined for stabilization implications. As an example, Eccles felt that Social Security taxation should be deliberately controlled in a counter-cyclical fashion, with increases in rates during booms and reductions during depressions. Taxation in general should be used mainly as a means of redistributing income from wealthy individuals and corporations to low and middle-class consumers who had, Eccles believed, higher marginal propensities to consume:

"The fundamental economic plans, when they are finally established," he said in 1933, "will of necessity center in the distribution of purchasing power and in the allocation of income between investment and expenditures . . . ."

> These plans will involve public and semi-public expenditure on an expanding scale for cultural and quasi-cultural services. They will involve relief of taxation that rests on the consumer; the reduction of sales taxes, of real estate taxes, of tariffs, and of public service charges. They will involve the establishment of heavy income taxes especially in upper brackets. They will involve heavy taxation of undistributed corporate surplus, to force corporation income into dividends and taxes.[25]

A good summary statement by Eccles on compensatory policy was delivered in 1935, when he declared his hope that "the inherent instability of capitalism may be corrected by conscious and deliberate use of three compensatory instruments, taxation, varying governmental expenditures, and monetary control . . . . It should be evident by now," he said, "that simple maxims and rules of thumb are not sufficient."[26]

III. The Future of Capitalism

> *The present condition is not the fault of the unemployed, but that of our business, financial, and political leadership. It is incomprehensible that the people of this country should very much longer stupidly continue to suffer the wastes, the bread lines, the suicides, and the despair, and be forced to die, steal, or accept a miserable pittance in the form of charity . . . . We shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism . . . . You have got to take care of the unemployed or you are going to have a revolution in this country."*
>
> Marriner S. Eccles, 1933

> *If [compensatory monetary and fiscal policy instruments] are not established or if they are not successful in achieving economic*

> *stability . . . you will not have compensatory but direct controls in every important sphere of economic activity.*
>
> Marriner S. Eccles, 1935

Eccles recognized, as did Schumpeter, Marx, and Keynes, the instability of the unfettered capitalist system: "If there is one thing [that] seems clear it is that unless conscious effort is made to prevent them, booms and collapses will continue to occur in capitalistic democracies," he observed in 1935. His analysis of the business cycle rested on a credit limit which marked the ceiling to expansion, and a multiplier effect which resulted from reduced spending by overextended consumers as well as liquidation of bad investments which characterized the downturn. Like Keynes, however, Eccles did not foresee automatic recovery, since he did not subscribe to the view that idle funds would not be held indefinitely by individuals, banks, and corporations. Like Schumpeter, Eccles saw corporations as playing a role in the problems of capitalism, not necessarily by destroying the role of the entrepreneur (of which group Eccles had long been a successful member), but by holding large sums of unused funds during periods of recession and depression.

Eccles, also like Schumpeter, was interested in the preservation of capitalism--but not for its own sake: "There is nothing sacred about the capitalist economic system. It is merely an economic organization which society has developed in its quest to satisfy its wants," he said in 1935.

> If I wish to preserve capitalism it is because I think that a smoothly-functioning democratic capitalistic system offers a better guarantee of what is generally termed the good life than does a capitalistic dictatorship, or socialism, or communism.

> If, then, we regard capitalism simply as a particular economic organization of society, our defense of, or attack on, that organization must be directed toward its effectiveness--its ability to satisfy in an adequate and equitable fashion the material needs of mankind. If it cannot be defended on these grounds it is doomed. The doctrine of divine right of kings did not save Charles the First's head nor will the doctrine of the sacred rights of property save capitalism. People want and will demand concrete and material results. Private enterprise today is on trial solely because it is not producing the goods it has the capacity to produce and because it is not providing a more equitable distribution of the goods it is producing.[27]

As did Schumpeter, Eccles saw danger to the preservation of democratic capitalism in the development of a class without a stake in the survival of the system: not the disenchanted intellectuals, students, or public servants of Schumpeter's theory, but the unemployed. He warned that

> Over twenty million people, or one-sixth of the population are being supported by the federal government. In addition, there are millions more being supported by their relatives or using up their savings. The important thing from the point of view of capitalism is that these people no longer have any stake in preserving our present economy. They have nothing to lose. And if this condition persists much longer, or if it recurs again in a few years, neither you nor I will have anything to lose.[28]

If, and only if, the problem of unemployment could be solved, a bright future lay in store for capitalism. Eccles' views on the subject were summarized well in his 1939 "Credo," which said, in part:

> If I had my choice, I would at all times have a balanced federal budget. The difficulty is that an unbalanced budget is not an independent condition created by a government decision--but a reflection of deep-seated unbalance in the economy . . . . A policy of adequate governmental outlays at a time when private enterprise is reducing its expenditures does not reflect a preference for an unbalanced budget. Experience has demonstrated that the budget cannot be balanced in severe depression by either increasing taxes or decreasing expenditures, or by doing both. I contend that the volume of governmental

> expenditures should be increased in a depression, and should be so planned, so timed, and so adequately scaled as to result in diminishing the duration of the depression. If we are to pursue such a course, then as prosperous conditions are restored, and as unemployment is absorbed by private activity, we must be prepared to bring the budget into balance, offsetting the dangers of a boom on the upswing as positively as depression has been counteracted on the downswing . . . .
>
> In my own thinking I distinguish between the social obligation of a free democratic society and the economic guidance and regulation that would lead to the greatest common good. It seems to me to be a function of democratic government to enforce minimum standards of decency, within the limits of the nation's resources, in all fields of activity. A rich country like ours can afford to insist on a minimum income for its families; a minimum age for schooling and employment; a maximum age for retirement; decent and safe conditions of work; increasing benefits for labor as productivity increases; adequate protection and security for the aged and unemployed; and adequate educational, health, and recreational facilities. Standards of honesty and decency can well be set by government--resulting in a gradual advance in the standards of conduct to be enforced in the final analysis by the business community itself . . . .

But, Eccles concluded, "unless the nation can provide itself with an adequate income in goods and services, the effort to enforce minimum standards of decency will be a losing fight."

"Our major economic concern is now and at all times to assure employment."[29]

"You have got to take care of the unemployed," Eccles had told the Finance Committee, "or you are going to have a revolution in this country."

IV. Influences

> *. . . My own viewpoint has sometimes been erroneously identified with that of Mr. Keynes, doubtless to his embarrassment . . . .*
>
> Marriner S. Eccles, 1939

> *Until comparatively recently, I had never met Keynes, nor had I ever, so far as I can recall, read or studied any of his works. We came*

out at about the same place in economic thought and policy by very different roads.

Marriner S. Eccles, 1942

I know of no professors whose writings have influenced me.

Marriner S. Eccles, 1949

Eccles' contention that he had arrived at his economic philosophy without having read or studied the works of John Maynard Keynes is accepted both by his biographers and by his contemporaries. Sidney Hyman, author of the most recent and complete biography of Eccles, simply reiterates Eccles' own account, as does Dean May.[30] Herbert Stein, in *The Fiscal Revolution in America* states that "Eccles had not then, in the early 1930s, read anything by Keynes and never in his life read very much by him."[31] This opinion is also held by economists who knew and worked with Eccles, such as Lauchlin Currie, Richard A. Musgrave, and John Kenneth Galbraith. According to Milton Friedman, "Eccles was not influenced by Keynes or Keynes by Eccles . . . . However, Eccles came to Washington with already fairly fully developed ideas that would later be described as Keynesian in character."[32]

Though Eccles no doubt had forgotten by 1942, he had in fact read *something* by Keynes in the early 1930s. In a 1933 speech, Eccles quoted Keynes on the difficulty of gaining public acceptance of deficit spending except in time of war.[33] This apparently limited exposure of Eccles to the writing of Keynes, coming as it did after Eccles' own thinking on macroeconomics had matured, does no appreciable damage to his claim of originality and independence. Nor does the fact that Eccles met Keynes and corresponded with him at least as early as 1941, rather than 1943, as is commonly believed.[34] If Eccles was not influenced by Keynes' early writings, he was equally unaffected by his later works. Lauchlin Currie, who was Eccles' first and most important economic advisor, recalls that "(Eccles) never read Keynes' *General Theory*, and he accepted the Keynesian arguments, when I summarized them (in a written review prepared for Eccles in November 1936), as a matter of course. Nothing new!"[35]

While no serious student of the development of macroeconomic policy has claimed that Eccles' views were derived from Keynes, other influences have been suggested. First, as Eccles himself writes, he found in the writings of Foster and Catchings an analysis and a suggested cure for the depression which corresponded to his own thinking. How much of Eccles' philosophy can be attributed to this exposure is problematic. As Currie observes, "The only thing I remember was (Eccles) telling me once that he had been influenced by Foster and Catchings' book, but whether because they convinced him or because they agreed with him, I do not now recall."[36]

Evsey Domar, who worked under Eccles at the Fed during the War, recalls that Eccles never came to the Federal Reserve Seminar, which began in 1943 or 1944, with Keynes being the first speaker. "Somehow," Domar writes, "I have the impression that he did not care much for academic economists."[37] Domar is undoubtedly correct. In answer to a 1949 inquiry as to the source of his thinking, Eccles said, "I know of no professors whose writings have influenced me." He allowed, however, that eight individuals with whom Eccles worked at the Fed might "have possibly had some influence on my thinking."[38] Among those eight were some, such as Lauchlin Currie, Alvin Hansen, and Richard Musgrave who had been and/or would be "professors." Their influence on Eccles apparently came only through the working relationship, not through their "academic" writings. Even an active involvement in practical problems of monetary and fiscal policy, however, was not always sufficient to remove the taint of academics in Eccles' assessments. Richard Musgrave recalls an occasion on which his attempt to defend Sproul's understanding of economic principles to Eccles on the basis of Sproul's previous experience as a professor of economics provoked the Fed Chairman's scorn.[39] Musgrave concludes that "economists undoubtedly influenced (Eccles') thinking, even though he denied this. His discussion of public debt in particular strongly reflects (Alvin) Hansen's position."[40] To what extent Eccles was influenced by academic economists, and vice versa, is problematic. According to Milton Friedman, "the academic world was not influenced by Eccles."[41] The academic world, however, was certainly aware of Eccles' analysis and policy recommendations, as is indicated by his correspondence with many prominent economists. Irving Fisher, then Professor Emeritus at Yale, was one with whom Eccles had correspondence on several occasions. Although Fisher had written a very favorable three-part essay on Eccles' views in 1935,[42] Eccles did not always agree with Fisher's views. In 1938, for example, Eccles, in a draft reply for Franklin Delano Roosevelt's signature, pointed out the flaws in a plan which was being strongly urged on the President by Professor Fisher to bring about economic recovery by monetizing the float. In submitting the draft, Eccles commented on such plans pressed on the President, and concluded, "I am returning also, with a suggested reply as you requested, the correspondence from Professor Irving Fisher, who is much more intelligent but certainly misled on this point."[43] "If he felt he was right," recalls Currie, "he was not in the slightest impressed by 'authority' to the contrary."[44] This characteristic was evident in his belief, contrary to the opinions and advice of his economists, that the war would be followed by inflation, not deflation.

Quite aside from any influences from economists to which Eccles might have been subjected during the early 1930s or later, the fact remains that he came to a view of the workings of the macroeconomy which was practically unthinkable for one from his background. Eccles, in conversation with Herbert Stein, offered two reasons for arriving at unorthodox conclusions when others with his background did not. First, being a country banker, Eccles saw the impact of the financial crisis earlier and more forcefully than did big-city bankers. Second, because he had never attended college, he had no orthodox economic theory to unlearn.[45] While appealing, this explanation, as Alan Sweezy points out, would not stand up to statistical scrutiny, as there must have been hundreds of other country bankers equally lacking in college-level education, none of whom came to Eccles' conclusions.[46] While the factors he mentions might have been important, perhaps even "necessary," they obviously were not sufficient to explain the transformation in Eccles' thinking. Lauchlin Currie has suggested that the key insight in the transformation--one which many establishment economists failed to gain--was Eccles' discovery of the fallacy of composition. "Our basic agreement," Currie writes, "came from the fact that he early in the Depression sensed the Fallacy of Composition--of applying accounting concepts appropriate to an individual to the whole community . . . . So far as I know Marriner had worked this out for himself . . . . Certainly he was the first prominent banker or businessman who publicly adopted and explained the difference between private and public accounting concepts as applied to income statements."[47] While Currie identifies the key insight, he does not have a causal explanation for Eccles' obtaining of it. "On . . . the explanation for the advanced nature of his analysis," Currie concludes, "I can only suggest that he was what in biology is called a mutation!"[48] Sweezy provides a more concrete explanation: "The explanation . . . is that Eccles combined unusual ability to cut through to the essentials of an economic argument with the intellectual independence and courage to say publicly exactly what he thought."[49]

There has been a suggestion that Eccles' Mormon background might have preconditioned him to see a role for government in overall economic planning and stabilization. The history of strong central direction and control characteristic of Mormon economic policy throughout the last half of the nineteenth century, and the combination of self-reliance and cooperation ("Jacksonian Cooperation") which marked Mormon socioeconomic institutions throughout the history of the church might have allowed Eccles to see possibilities of superimposing overt government macroeconomic stabilization policy on a framework of individualistic private enterprise in ways which would have (and did!) seemed contradictory to bankers, businessmen, and industrialists from more orthodox backgrounds. This is the explanation strongly favored by Dean May and Jonathan Hughes.[50]

Whatever the explanation or explanations for the evolution of Marriner Eccles' ideas on macroeconomic theory and policy--and undoubtedly many factors were involved, his was a remarkable intellectual accomplishment, placing him among the earliest of the American precursors of Keynes. More importantly, Eccles, convinced of the correctness of the principles he espoused, became the leading economic spokesman of the Roosevelt Administration and the most important figure in the introduction of modern macroeconomic stabilization policies in the United States. Richard A. Musgrave, who was Eccles' personal assistant from 1944 to 1948, considers Eccles as "a great figure in a crucial period of our history . . . an extraordinary figure, with a great deal of insight and courage." "It is easy," writes Musgrave, "for an academic to belittle theoretical qualities in a man of action such as Eccles; yet which academic, other than Keynes, was as important in implementing a modern view of macro policy into actual policy measures?"[51] Milton Friedman would go further. "I believe [Eccles] played a far greater role in the development of what came later to be called Keynesian policies," he states, "than did Keynes or any of his disciples."[52]

In 1951, Marriner Eccles made his last stand in Washington. Making public the duplicity of the Treasury Department and President Truman in attempting to transfer control of monetary policy from the Federal Reserve to the Treasury, Eccles won his most famous victory. It was for this success in rescuing the independence of the Fed from the executive branch of government that Eccles is primarily remembered. When he retired from active public service later that year, Eccles left

Washington frustrated with the slowness of policy-makers to recognize the compelling economic logic of compensatory finance. It had taken until 1938 to convince F.D.R. of the efficacy of countercyclical stabilization policies. There seemed to be little indication that Congress would be willing to pass contractionary fiscal legislation necessary to combat postwar inflation. For the next quarter century, while Eccles successfully directed his considerable abilities to the economic development of the Intermountain West, he continued to speak out forcefully on domestic and foreign affairs, always with the careful analysis, clear logic, and command of facts that had characterized his Washington years.

Jonathan Hughes, the well-known economic historian, in his seminal book on entrepreneurship in American economic history, *The Vital Few*, uses Eccles as an example of entrepreneurship in the public sector. Hughes, himself a Utah native, concludes his assessment of Eccles this way:

> So who was Marriner Eccles? He was an example of the very best this country could ever produce. We never got the benefits of his life and abilities that were possible. But that's the way we are. We soldier on in our bumbling way, a democracy, good and bad, wise and foolish. As the saying goes, "Every dog has his day," and since we are a lucky country, once in a while a Marriner Eccles comes along.
>
> For the memory of Eccles one has a warm feeling, knowing what his standards were, and that he lived and died facing them:
>
> The World has need of willing men,
> Who wear the worker's seal;
> Come, help the good work move along;
> Put your shoulder to the wheel.
>
> The music of a Utah childhood, long ago.[53]

Marriner Eccles was a paradox: a developer of economic theory who expressed an intense dislike of "theory" and categorically denied being an economist; a self-styled "conservative Republican businessman-banker" who served a Democratic President and delighted in pointing out logical inconsistencies and backwardness in the thinking and statements of bankers and businessmen; and a defender of the advantages of a free-enterprise market economy who believed that only significant government intervention in the economy could save the system.

ENDNOTES

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1. Sidney Hyman, *Marriner S. Eccles: Private Entrepreneur and Public Servant*, Stanford, Stanford University Graduate School of Business, 1976, pp. 2,4.

2. *MSE*, Senate Finance Committee, *Investigations of Economic Problems*, "Statement of M.S. Eccles, President First Security Corporation, Ogden, Utah," February 24, 1933, p. 712.

3. Ibid., pp. 712-33.

4. *Time Magazine*, February 10, 1936, p. 60.

5. For an excellent biography of David Eccles, see Leonard J. Arrington, *David Eccles: Pioneer Western Industrialist*, Logan, Utah State University Press, 1975.

6. The primary source is Marriner S. Eccles, *Beckoning Frontiers, Public and Personal Recollections*, Sidney Hyman (ed.), New York, Alfred Knopf, 1951. See also Arrington, *David Eccles*, and Hyman, *Marriner S. Eccles*.

7. Eccles, pp. 4-5, 21, 37, 51.

8. *MSE*, written address, June 1925, p. 3.

9. Eccles, pp. 54-55.

10. *MSE*, written address, March 26, 1931, pp. 5-6.

11. W.T. Foster, "Wizards with Bootstraps," *North American Review* (April 1933); cited in Hyman, p. 93.

12. *MSE*, written address, June 17, 1932, pp. 1-6.

13. *MSE*, written address, October 27, 1933, p. 1.

14. *MSE*, Senate Finance Committee, p. 706.

15. *MSE*, written address, ibid., p. 3.

16. *MSE*, Senate Finance Committee, p. 719.

17. *MSE*, written address, ibid.

18. Ibid., pp. 2, 5.

19. *MSE*, Senate Finance Committee, p. 721.

20. *MSE*, written address, ibid., pp. 10-11.

21. Ibid., pp. 2, 4.

22. Ibid., pp. 4, 5.

23. *MSE*, Senate Finance Committee, p. 705.

24. Ibid., pp. 712, 733.

25. *MSE*, written address, ibid., p. 7.

26. *MSE*, written address, February 16, 1935, pp. 21-22.

27. Ibid., pp. 2-3.

28. Ibid.

29. Rudolph L. Weissman (ed.), *Economic Balance and a Balanced Budget: Public Papers of Marriner S. Eccles*, New York, Harper & Brothers, 1940, pp. 2-4.

30. Hyman, *Marriner S. Eccles*, p. 128; Dean L. May, *From New Deal to New Economics, The Liberal Response to the Recession*, New York, Garland Publishing, 1981, pp. 53, 58-59.

31. Herbert Stein, *The Fiscal Revolution in America*, Chicago, University of Chicago Press, 1969, p. 148.

32. Friedman to author, letter, July 22, 1983.

33. *MSE*, written address, October 27, 1933, p. 8.

34. *MSE* Eccles to Keynes, letter, May 19, 1941.

35. Currie to author, letter, August 24, 1983; *MSE*, Currie to Eccles, memo, November 20, 1936.

36. Currie to author, ibid.

37. Domar to author, letter, July 6, 1983.

38. *MSE*, Eccles to William Merrill, letter, September 22, 1949.

39. Musgrave to author, conversation, December 29, 1983.

40. Musgrave to author, letter, September 22, 1983.

41. Friedman to author, letter, July 22, 1983.

42. *MSE*, Irving Fisher, "The Mind of Mr. Eccles," 1935, ms.

43. *MSE*, Eccles to M.H. McIntyre, letter, June 2, 1938.

44. Currie to author, letter, August 24, 1983.

45. Stein, p. 485, f.n. 47.

46. Alan Sweezy, "The Keynesians and Government Policy," *American Economic Review* (May 1972): 117.

47. Currie to author, ibid.

48. Ibid.

49. Sweezy, Ibid.

50. Dean May, "Sources of Marriner S. Eccles Economic Thought," *Journal of Mormon History* 3(1976). Jonathan Hughes, *The Vital Few: The Entrepreneur & American Economic Progress*, expanded ed., New York, Oxford University Press, 1906, pp. 522-523.

51. Musgrave to author, ibid.

52. Friedman to author, ibid.

53. Hughes, p. 557.

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